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Correspondent of The National City Bank of New York

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THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions Governmental Finance United States Securities

New York, February, 1924

General Business Conditions

THE trend of business in the first month of the new year has strengthened the feeling of confidence which developed in the last two months of 1923. In mid-Summer there were widespread misgivings that the state of industrial activity would not last through the year, but as the Fall season passed it became evident that business was well-sustained and possessed of staying-power able to carry it very much farther. The volume of Fall business was somewhat diminished by the unusually mild weather, which affected the sale of clothing and shoes and played havoc with the bituminous coal industry, but notwithstanding this influence railroad traffic was heavy up to the holidays and, excepting the seasonal industries, employment was but slightly affected. The average weekly earnings of factory workers in New York State in December was $27.97, a gain of 33 cents over November and of $1.58 over December, 1922. This wage-average includes part-time wages, but does not include names dropped from the pay rolls. However, there was no general reduction of working forces. The Illinois Department of Labor reports a considerable influx of unemployed at Chicago from seasonal jobs outside, such as road construction, but says that 1,179 employers having on their pay rolls more than 40 per cent of all factory workers show a reduction in December of less than 1 per cent. The Bureau of Labor at Washington, gathering reports from all parts of the country for December, calculated a reduction in number of employees in 52 manufacturing industries of 1.5 per cent from November and 4.2 from June.

The steel industry, after depleting its order books over a period of seven or eight months, turned the corner in December, receiving orders in excess of shipments, and since then has been operating at 80 to 90 per cent of capacity with satisfactory prospects for the first half of the year. The Matthew Addy Company of Cincinnati, reporting upon pig iron, first week in January, said:

> In the past fortnight we have gone over business prospects with several hundred foundrymen, malleable makers and large users of iron. They all agree that the prospects for this year are good. Even the makers of agricultural implements feel that the time of their long depression is over. The makers of railroad supplies have been unusually prosperous and they look for even more business this year. The automobile makers are preparing for a larger season than ever.

The United States Steel Corporation in 1923 had the year of largest output and earnings since the war, and after adding 25 cents a share to the last quarterly dividend for that year ventured to add 50 cents for the first quarter of 1924. Both are classed as extras, but there is a good deal of confidence that they signify a permanent advance over the regular 5 per cent per annum heretofore maintained, and that the additional distribution would not have been made if the management had not believed the general business outlook to be good.

Outlook for Building Operations

It has been recognized by everybody that one of the chief factors in the industrial revival from its beginning in 1922 has been the great amount of building construction under way, the explanation for which is to be found in the restriction of such work during the war, and high costs in the years immediately following. The Copper and Brass Research Association has completed a survey of such construction in 1923, and sums up the result, divided among the different classes of buildings as follows:

Classification	Total	Per cent
Apartments	$947,670,000	16.00%
Churches	400,980,000	6.77
Dwellings	710,750,000	12.00
Hospitals	450,015,000	7.60
Hotels	643,820,000	10.87
Industrial buildings	748,065,000	12.63
Office buildings	607,690,000	10.26
Public buildings	248,770,000	4.20
Schools	1,165,140,000	19.67
Total	$5,922,900,000	100.00%

The review estimates that on January 1, 1922, the deficit in building expenditures resulting from the war was $6,363,000,000, that this was reduced in 1922 by $1,785,000,000, and in 1923 by $2,617,900,000, leaving a shortage on January 1, 1924, of $1,960,935,000. The ex-

penditure for 1924 is estimated at $4,835,935,000 of which amount $3,125,000,000 will represent the normal requirements for population growth, leaving an uncovered deficit at the end of the year.

Bradstreets reports do not estimate the total building operations, but give the building permits granted in the principal cities for ordinary house, office, store and factory construction in the last six years as follows:

Year	Total	Gain yearly per cent.
1923	$3,115,541,247	Inc. 23.1
1922	2,529,603,981	Inc. 52.2
1921	1,651,981,416	Inc. 15.6
1920	1,427,059,396	Inc. 8.8
1919	1,310,962,344	Inc. 202.5
1918	433,000,000	

Five cities of the country report expenditures in excess of $100,000,000, and these five cities show increases or decreases as compared with 1922, as follows:

	1923	1922	Pct.
New York	$785,258,976	$603,742,425	30.1
Chicago	328,215,912	228,589,110	43.8
Los Angeles	200,133,581	121,206,857	65.2
Detroit	129,723,165	95,396,225	36.0
Philadelphia	122,650,935	125,414,480	*2.2
Total above	$1,565,982,569	$1,174,349,097	33.3

* Decrease.

A little more than one-half of the construction was in these five cities.

There was a falling off of permits during the Summer but an increase in the last three months of the year, which together with activity in new operations gives strong promise of large expenditures this year. Building contracts awarded in 27 northeastern states in December, as reported by the F. W. Dodge Corporation were 25 per cent larger than in December, 1922. Winter work is on a larger scale than ever before. In New York City wages in the building trades have been advanced 50 cents per day under an agreement running two years. Building materials are slightly lower than in the Spring of 1923. Over the country generally building costs probably will be about the same as last year. From the amount of work actually under contract it seems safe to predict that building operations will be at about the capacity of the industry, at least during the first six months.

Railroad Expenditures

Next to house-building operations, the railroads were the largest factor in the business revival of last year. They are estimated to have used 27 per cent of the steel manufactured, and according to the Railway Age their total capital expenditures were about $1,076,000,000. That part of their purchases of equipment which represented replacements would be charged to maintenance, and their expenditures under this heading were unusually large on account of the shopmen's strike in 1922.

The equipment is now in good order, and the roads are well supplied with rolling stock, as shown by the prompt movement of the largest volume of traffic ever handled. It is not to be expected that their expenditures this year for the same purposes will be as large as last year, but they have a great amount of work under contemplation, to be done if financial conditions will permit. Some of the strong companies have announced programs that have been definitely adopted. Forecasts of capital expenditures are given by the Railway Age as follows: Atchison, Topeka & Santa Fe, $70,000,000; Pennsylvania, more than $50,000,000; Illinois Central, $45,000,000; Southern Pacific, $40,000,000; Norfolk & Western $15,000,000; Erie $5,000,000. New York Central has carried over $18,000,000 of unfinished work.

Companies whose financial resources are not so certain are deterred by the threats of adverse legislation at Washington. Capital expenditures call for new money and the companies must go to the public market with bonds or stocks for sale. The Congress of the United States has the power to limit the earnings of capital invested in railroads, but no power to compel the investment of new capital in railroads, a limitation upon its authority which some members of that body do not seem to take into account. If the railroads are let alone the prospect is for large expenditures upon them, and these will be an important factor in the general business situation.

General Business Expansion

The general run of business will be affected largely by the outlays in these two lines, for building and for the railroads. They affect employment so generally and are so influential upon sentiment that they make the pace to which others conform. In neither case is there quite the necessity for activity that there was a year ago, but in both cases the needs are still above normal.

Industrial corporations are giving evidence of their confidence in the future by adopting plans for increasing their capacity. It was common talk after the war that the steel industry had been expanded beyond probable needs for ten years or more, but a number of the leading companies have been enlarging since then, and the U. S. Steel Corporation has planned $15,000,000 of capital expenditures in 1924.

The very condition which is the chief cause of uneasiness, the high scale of industrial costs, like the high house rents, is a stimulus to some forms of industrial expenditure. It is causing a most searching study of costs to be made and the installation of much new equipment for the purpose of reducing them. The papers from day to day are carrying an-

nouncements of new processes, some of them of very significant importance. Hydro-electric development is going on at an unprecedented rate, but by no means tells the whole story of electrical development. More than $700,000,000 of new capital was invested last year for additions to steam and hydro-electric plants, transmission lines and the general equipment of distribution, while the total investment in the central stations of the country is now nearly six billion dollars. It is stated that eleven important new power stations will be completed in the State of Pennsylvania before the end of 1924.

Electrical energy is one of the few cost-of-living items that is lower now than in 1913, and this is suggestive of other developments under way.

Tax Reduction

The probability of a reduction of taxation is one of the most stimulating prospects. The progress of the Mellon program in the House Committee indicates that substantial reductions certainly will be made, but the outcome upon the higher schedules is yet undetermined. This is precisely where the largest benefits to the business community are to be secured. Mr. Mellon has followed up his original argument for lower surtaxes so vigorously and effectively that he must have made the case very clear to most readers who have followed him, and the business public has supported him in a manner that has made the talk about propaganda weaken perceptibly.

The essence of the case is that the revenues now being collected on the high incomes consist of capital that would serve the country more effectively in production and that in addition to this a much greater amount of capital is made unavailable for new business enterprises by being driven into the tax exempt class of investments. It is worse than a farce for the government to levy taxes running up to 58 per cent. of an individual's income while tax-exempt securities paying 4½ to 5 per cent interest are available in abundance. Of course, nobody with the high incomes will pay these taxes unless his capital is already invested in such manner that it cannot be shifted without heavy loss. The levies therefore become heavy discriminatory taxation, paid only by individuals whose investments are subject to the risks of business, and act as a deterrent to new investments of this character. It is unintelligent taxation from the standpoint of the public interest, because it takes practically nothing except funds destined to become productive capital.

Money and Banking

Commercial loans are on a 5 to 5½ per cent basis with some exceptional names slightly below the former figure. Time money on mixed collateral rules at 4½ to 4¾ per cent. Call money weakened after the middle of January, under an influx from the country, and from the 18th to the 29th the renewal rate was 4 per cent, rising to 4½ on the 30th. The average renewal rate for the month was 4.43 per cent.

The Federal Reserve banks in recent weeks have reached a lower volume of loans than at any time since 1917. On January 17, 1923, the total earning assets of the twelve Federal Reserve banks stood at $1,127,122,000, of which bills discounted for member banks amounted to $714,680,000. On January 16, 1924, the total earning assets of these banks stood at $943,561,000, of which bills discounted for member banks amounted to $534,185,000. These discounts stood at $1,193,566,000 in the last statement in December, showing large liquidation since. This illustrates the liquidity of Federal Reserve assets, and the high capacity of the system to respond to current business demands.

Total loans and discounts of reporting member banks on January 17, 1923, stood at $11,495,696,000, and on January 16, 1924, at $11,876,859,000, an increase in one year of $381,173,000, a very moderate amount in view of the state of business activity, and considering the normal growth of the country and gold imports aggregating over $300,000,000.

The Price Movement

The price tables of the Department of Labor show that the index numbers for the combined average of all the 404 commodities of its list were slightly lower for December 1923 than for December 1922, being 151 against 156. These represent the movement of wholesale prices. The index numbers for May 1920, when prices were at the crest of the upward movement, for January 1922, when they were about at the lowest, for December 1922 and December 1923 are given herewith:

Group	May 1920	Jan. 1922	Dec. 1922	Dec. 1923
Farm products	241	122	145	145
Food, etc.	248	131	144	147
Cloths and clothing	328	176	194	203
Fuel and lighting	239	195	216	162
Metal and metal products	202	112	131	142
Building materials	293	157	185	178
Chemicals and drugs	213	124	130	130
House furnishing goods	247	178	182	176
Miscellaneous	208	117	122	116
All commodities	247	138	156	151

The British tables for the past year show a slight rise, which however is nearly all accounted for by the fall in the gold value of the British currency.

The Situation in Agriculture

The prices of grains are higher than they were two months ago, and for corn and oats higher than heretofore on the 1923 crop, and above the prices of a year ago. In the last week of January, corn for May delivery in Chicago ranged from 78¼ to 80⅝ cents per bushel, which compares with 71½ to 72⅜ cents in the corresponding week of 1923. Oats in the same week ranged from 47 to 48½ cents, which compares with 43½ to 44⅝ cents last year. In the corresponding week of 1922, corn ranged from 53½ cents to 53⅝ cents and oats from 38¾ to 39⅜ for May delivery.

A Record Year in Hog Production

Hogs are around $7.00 per hundredweight on the average receipts at Chicago, and about $1.00 lower. Average receipts are of poorer quality than in 1921-22, before the slump came. The relation between corn and hogs has been reversed. In the two years named corn was more plentiful than hogs and the latter relatively high, with the result that hogs came to market well finished, while now with corn worth relatively more than pork, the hogs are sold at lighter weights, and the price average suffers by the lower quality. The greatest number of hogs ever received in the markets reported by the Department of Agriculture in any year prior to 1923, was 44,863,000 in 1918. In 1920 the number was 42,121,000, in 1921, 41,101,000, in 1922, 44,067,000 and in 1923 over 51,000,000. This swing was the natural result of the good prices for hogs and low prices for corn in 1921 and 1922. In their efforts to market their corn in the form of hogs the producers overdid the multiplication of the latter. There is no use of producing more hogs than there is corn to feed them, or than markets will absorb, and nobody but the farmer can adjust the relations. It is largely an experimental task, but that the farmers are at work on it is shown by the government estimate of January 1, 1924, which makes the number of hogs on farms at that date about 3,000,000 less than at the beginning of 1923.

Better Outlook for Cattle

High-priced corn in the past year has had an effect upon the quality of cattle coming to market similar to that upon hogs. Producers do not like to feed to a finish under such conditions, and prices suffer with quality. Beef cattle are estimated by the Department of Agriculture 1,677,000 less in number than one year ago and dairy cattle nearly 238,000 head more. This illustrates how prices set in motion the changes required to correct an unbalanced situation. Cattle prices are about as a year ago, but the feeling in well-informed quarters is that 1924 will see better prices for both cattle and hogs, and particularly for stock cattle. Many herds have been depleted in the past three years under the pressure of necessity, and as liquidation is completed, prices undoubtedly will improve. There are more mouths to feed in this country every year, not to speak of foreign demands, and not much weight need be given to the theory that the public is suddenly losing its taste for good beef. The cattle business has been suffering the penalty of excessive borrowing in 1917-19. This applies particularly to breeding herds. The consumption of all meats was large in 1923, and if full employment is maintained in the industries in 1924 this will continue.

In response to an inquiry we have received the following from the live stock commission firm, John Clay & Co., Chicago, giving prices on beef cattle over the last four years and commenting upon the situation:

For the past two years beef cattle have brought excellent prices, taking into consideration the enormous runs of all classes of cattle, and the following will give you an indication of the fluctuations in the market. These figures are taken as for the month of September for each of the four years and refer to beef cattle only:

Year 1920—average price	$16.35 per cwt.	Top	$18.35
Year 1921—average price	8.10 per cwt.	Top	11.00
Year 1922—average price	10.85 per cwt.	Top	12.25
Year 1923—average price	10.75 per cwt.	Top	13.00

You will notice from the above we had a very radical decline during 1921, which was the result of general depression in business. Top beef cattle on the Chicago market are bringing $12.25 today, and we do not look for any radical decline in values during the year, as do not believe there is a surplus of beef cattle in the feedlots, notwithstanding from the enclosed clipping from the "Live Stock Markets" of the 24th you will observe a large number of shipments of stocker and feeder cattle into the corn belt for the last six months' period of 1923.

While the shipments of stocker and feeder cattle into the corn belt during the last six months of 1923 were somewhat smaller than during the same period of 1922, they were much larger than those of 1921 or 1920 and larger than the five-year average from 1919 to 1923. The total shipments for the six months' period for the five years were: 1919, 1,946,000 head; 1920, 1,469,000 head; 1921, 1,484,000 head; 1922, 2,380,000 head; 1923, 2,259,000 head.

We have financed an exceptionally large number of farmers since the Fall of 1921, and with a scarce exception all of these men have made a good profit through their feeding operations, particularly those who have handled calves and lighter weight steers. We have been able to follow this very closely, as we have both bought and sold the cattle, and are thus able to determine the amount of the gross profit, from which, of course, would need to be deducted the value of the corn, rough feed and labor incident to the feeding operations.

During last Summer the purchase of heavy feeders, that is steers weighing from 1,000 pounds to 1,200 pounds, and which cost from $8.50 to $9.00 per cwt. did not prove profitable, as when these cattle were marketed the buyers seemed to discriminate against the heavy weights preferring the lighter cattle. This is only an incident in the business, as you will fully understand while the majority of feeders are making money there are always a few who are unsuccessful, but this is mainly due to the lack of judgment in purchasing the proper kind of cattle for feeding purposes.

Scarcity of Cotton

The cotton crop is one as to which there is no longer any worry about over-production, the boll-weevil pest being responsible for this situation. The acreage last year was the largest ever planted, and the yield, finally estimated by the government at 10,086,000 bales is considerably below the amount required for a year's average consumption. Experts in the trade have calculated that consumption should average about 100,000 bales monthly below last year's in order to avoid a pinch near the end of the crop year. Foreign buyers have been operating freely to secure stocks, and although the Northern mills in this country have been curtailing manufacture, the Southern mills have not done so to the same extent. In the cloth markets resistance to price advances has been so strong that the level is much below parity with the raw material, but merchants appear to have been able thus far to supply their wants from stocks made from cotton bought under 30 cents per pound. The difficult situation in which manufacturers and dealers are placed may be seen from the fact that raw cotton for spot delivery is now priced at about 34 cents per pound while contracts for delivery next October, when the new crop will be available, may be made at about 6 cents per pound lower. This means that nobody will want to carry either raw cotton or cotton goods into the new crop year, and all will operate cautiously. Much will depend upon the prospect for the crop as the season develops. Undoubtedly the ruling high prices will cause a large acreage to be planted, but the weather and the weevil will be large factors in determining the results. That the weevil is not in complete control of the situation is shown by the fact that Texas and North Carolina, two States that were favored with good weather conditions both raised very good crops last year despite the weevil. The other cotton states had to contend with bad weather.

The Wheat Situation

May wheat at \$1.08 to \$1.11⅜ in Chicago in the past month compares with \$1.14⅝ the top on the last crop, and with figures around \$1.05 in December, and with \$1.16 to \$1.18 one year ago. The European markets have been taking more wheat than was predicted some months ago, but other countries have been supplying it. Wheat from the new crop in Argentine and Australia is now moving. Both have good crops, the former now estimated 70,000,000 bushels above that of last year. Bradstreet's reports exports of wheat including flour from the United States and Canada in the 30 weeks ended January 24, at 240,162,222 bushels, which compares with 292,162,099 in the corresponding weeks of the last crop year. The same authority gives the stocks of wheat in the United States and Canada, east of the Rocky Mountains, on January 19,1924, as 201,283,000, as compared with 139,956,000 on the corresponding date of last year.

Wheat quotations in Minneapolis are about 12 cents per bushel above Winnipeg quotations, although the Canadian product is of higher quality. Minneapolis is about 4 cents above Chicago. These figures show that wheat in this country is above an export basis, which has been the situation for several months, due to the support given the markets by the much belabored speculators. Somebody has faith in the future of wheat, and is backing his faith with his money. It is impossible to buy wheat in the interior markets, ship it to foreign markets and come out whole on the transaction, and this has been true most of the time since the harvest. The wheat that has been exported from this country from the last crop is accounted for mainly as either shipped from Pacific ports, where prices have remained on an export basis, or of the durum variety, or as having gone out in the form of flour of well known brands established in foreign markets. These flour exports are not quite so susceptible to price changes as wheat exports, although the millers are working under unfavorable conditions.

In a lesser degree, what has been true of our interior markets has been true of Winnipeg. Although Canada has exported much more wheat than this country, the two together are much below last year's exports, as appears by Bradstreets' figures above. The fact is that other countries have been underselling both Canada and the United States, and Canadian dealers, sitting on immense supplies, are finding it hard work to make sales. Probably prices in Winnipeg have felt the influence of the speculation which has been holding prices in this country above an export basis. Whether there will be any profit on these operations or not will depend on the relations of supply and demand as the crop nears its end. Millers on the Atlantic coast are reported of late as bringing Pacific coast wheat through the Panama Canal, which is a new development, as the surplus of that region has always gone to foreign markets heretofore.

Bank Failures in the West

The closing of numerous banks in agricultural districts of the west recently has focussed attention upon the farming situation and prompted further efforts to afford some kind of temporary relief. Undoubtedly the conditions are bad and signify that throughout many states severe losses have been suffered and business interests generally are de-

pressed. As to what may be practicable in the way of effective aid opinions differ widely.

The bank failures reveal a situation created primarily by the great rise of prices during and following the war and the subsequent decline. A rise of prices encourages an extension of operations, as a great many manufacturers as well as farmers know to their sorrow. A farmer enlarges his operations by buying more land or live stock, and the efforts of many farmers to do this at the same time had the two-fold effect of raising prices and getting the buyers into debt on the high-price level. The mania for speculation which all classes shared also was a factor in creating this indebtedness.

The outcome of this period of "good times" was just like that of every other similar period in history. When the inevitable slump came a great many borrowers were unable to meet their obligations, and country banks of small capital and whose loans were largely to farmers or dependent upon real estate values, found themselves in an especially difficult situation. Without the Federal Reserve system the crisis would have developed rapidly in 1920 and 1921, and enforced suspensions would have been so numerous that a general suspension of cash payments as in 1907 probably would have been necessary, and the industrial crisis of 1920-21 would have been far more severe than it was. With the Federal Reserve banks behind the general banking situation, and public sentiment reassured by this fact, the banks that have been in difficulties have been able to keep open and operate on small cash reserves long after, under other conditions, they would have had to close. Many that have been in difficulties have been able to work out of them, but those that have been overloaded with uncollectible paper have been gradually finding their situation hopeless. The low prices realized for the last crop, together with the fact that in the Spring wheat territory that crop was a poor one, has extinguished hope in many instances, and the numerous suspensions have created a state of alarm that has made the situation still more difficult.

There is no lack of credit or money available for either banks or individuals who are able to comply with the usual conditions; there is no failure of the Federal Reserve system to function as it was designed to do; the difficulty lies in the fact that heavy losses have been sustained and the banks in trouble are unable to furnish acceptable collateral.

The authorities at Washington have shown commendable interest in the situation. The Chairman of the House Committee on Banking and Currency, Mr. McFadden, has introduced a bill extending the life of the War Finance Corporation and liberalizing in some respects its authority to make loans. This is a practical measure. The Federal Reserve banks are properly limited by law as to the class of paper they may take; they are the bulwark of the country's credit system and under no circumstances should be required to do business on any but sound principles. The other banks cannot be expected to take paper which they regard as of doubtful value; they are trustees for the funds in their custody, and in the regular course of their business get more doubtful paper than they like to have, without deliberately accepting any. If the situation is such that help should be given to support public confidence and to serve the general welfare in certain localities, a governmental agency, State or National, is the proper means of affording it.

One feature of the situation which has been largely responsible for the numerous bank failures is the multiplicity of banks in some of the states. In North Dakota in December, 1923, there were 831 banks, or one to 778 inhabitants; in South Dakota there were 687, or one to 926 inhabitants. These compare with 1,116 banks in Ohio, or one to 5,161 inhabitants.

The banking business has been overdone in the localities where trouble has developed, particularly with small institutions. The sharp competition for business probably has been a factor in the condition in which they find themselves, and in many instances the small banks have been in the hands of parties inexperienced in the business.

Not All in Distress

It is wrong to convey the idea that all the farmers of the states where bank failures are reported are in distress or that all the banks are in hard straits. There are banks in all these states which have suffered no embarrassment, although doing business under like conditions with those that have failed. In the aggregate, individual deposits have been increasing in the past year and the banks have reduced their obligations for borrowed money. Thus the reports of the Comptroller of the Currency show that all banks in North Dakota on June 30, 1922, had outstanding bills payable amounting to $31,888,000, including indebtedness to the War Finance Corporation, and that on June 30, 1923, this sum had been reduced to $20,523,000. In South Dakota the reduction was from $20,037,000 to $13,983,000.

Permanent Relief

Anxiety about the banking situation is on account of the embarrassment and losses which will result if alarm extends and the banks in the affected districts are under continued pressure. Bank failures tie up funds, deprive the communities of current credit ac-

commodations and compel the liquidation of indebtedness; evidently it is very desirable to stop the spread of demoralization. After this has been done, however, there remains the question of how agriculture in these sections may be established on a sound basis, and it is a question not easily answered in practical terms.

It is evident that nothing can be done now about last year's wheat crop that will give relief to the growers, for the crop has passed out of their hands, except in the case of the most fore-handed, who are able to take their time about selling. Certain freight rate reductions have been ordered upon wheat from points in South Dakota to Duluth, Milwaukee and Chicago, and other rates are under examination. The through rate on wheat from Duluth to New York City, lake and rail, is only 15 cents per bushel. The main part of the crop, however, has been moved to the primary markets, and practically none is moving to the seaboard, for the reason that prices at interior markets are above an export basis.

This relationship of interior prices to foreign prices, heretofore referred to, affords a sufficient answer to the latest resolution offered in Congress, for an investigation to determine whether or not short-selling is responsible for the low prices. It shows that the farmer has been getting prices above the parity with world markets. This is the net result of speculative dealings in the last crop down to date.

The Wheat Problem

It cannot be too plainly stated or too often repeated that the United States is now a relatively small factor in making world wheat prices. Canada is a much larger factor and European markets are receiving large quantities of wheat at lower prices than even Canada is making. Moreover, Canada and other countries are able to produce wheat at lower costs than those ruling in this country. The Wheat Council bases its appeal for a higher tariff upon a showing that costs are much lower in Canada.

It is evident therefore that as a general proposition the farmers of this country should reduce their production of wheat. Other crops will pay better. There may be areas of new land, and localities where the grain is grown in crop rotation, where this statement does not apply, but it applies wherever wheat has been the principal crop until soil deterioration has taken place.

It follows by the logic of the situation that no plan which will have the effect of maintaining the production of wheat for export will solve the existing problem.

Government Marketing Corporation

The Norris-Sinclair bill proposes an appropriation of $100,000,000 to finance a government-owned corporation to buy and sell agricultural products, the idea being that with this amount of capital it will be able to borrow several times as much more. It is declared to be "the object and purpose of this Act to provide a market for the sale of agricultural products, and to eliminate as far as possible the commissions and charges that are exacted upon agricultural products from the time such products leave the producer until the same reaches the consumer, and to thereby increase the price which the producer receives and decrease the price which the consumer pays."

There is nothing in the bill to indicate that the measure is intended for temporary relief. Apparently it is meant to inaugurate a permanent policy. It gives no promise of relief other than by the general socialistic theory that the government can do things more capably and economically than they can be done by private enterprise, a theory that is seldom justified in practice and not likely to be in this case. If the government should undertake the buying and selling of farm products private enterprise naturally would retire from the field. As already stated, private enterprise at this time is holding the price of wheat in this country several cents per bushel above parity with world markets. If individuals engage in business of this kind with their own capital it is nobody else's business, but we cannot suppose that the public is ready to have government officials conducting such operations with public funds.

A Complicated Plan

Another plan is embodied in the McNary bill, said to have the approval of the Secretary of Agriculture.

This is avowedly an emergency measure. It declares that an emergency exists by reason of

(1) The continued economic depression in agriculture.

(2) Inequalities in prices between agricultural commodities and other commodities, resulting in a relatively inadequate return to the farmer for his labor and upon his investment.

(3) The existence of surpluses available for export in agricultural commodities.

(4) The necessity in part for the existence of such surpluses in order to safeguard the domestic market against uncertainties of yield, and the economic impracticability of immediately preventing the continued production of such surpluses.

(5) The dependence of the prices of such surplus commodities upon the lower prices in foreign markets due to unsettled world conditions and lower costs of production.

The plan proposed is an exceedingly complicated one. Briefly described it undertakes to establish the prices of all farm products at the ratio which existed between them and the general price level before the war, and to

maintain the ratio until the emergency no longer exists or until the expiration of the term named, which is ten years, unless extended. The price tables of the Bureau of Labor, Washington, D. C., are to be the basis for computing the ratio.

The elaborate provisions of the bill are for the purpose of making the home market for agricultural products independent of foreign markets, if possible, and high enough to maintain the desired ratio with other commodities. The Tariff Commission or the Secretary of Agriculture is to conduct the necessary investigations to determine what rates of customs duty are required to keep out competitive commodities, and when these duties have been put into effect an Export Commission is to buy whatever surplus there may be of any agricultural product and sell it in foreign markets, accepting whatever losses may be necessary, the principal aim being to create a sufficient scarcity in the home market to raise prices to the desired ratio level. Finally, an "equalization fund" is to be created against which the losses on exports will be charged, by levying taxes on the products sold for consumption in the home market. A separate account is to be kept with each commodity, and each commodity made to create the equalization fund to bear its own export losses. This suggests lifting oneself by one's own bootstraps, but since we consume more of all farm products than we export, the gains to the farmer presumably would exceed his losses, the home consumer paying the bill.

To illustrate the workings of the plan, the crop year 1921-22 may be taken as an example. The production of wheat in that year was 815,000,000 bushels, and if this was enhanced in value by the amount of the present duty, 30 cents per bushel, the increased value to farmers would be $244,500,000 less deductions for seed and their own consumption, and upon this would fall the charge for losses on 208,000,000 bushels exported. At 30 cents per bushel the losses would aggregate $62,400,000. Apparently this loss comes out of the pre-war ratio price, and impairs the result to the farmer to that extent.

Some advocates of the bill say that it will do away with grain exchanges, which indicates that they expect the government corporation to assume all distributing functions, as under the Norris bill. This would seem to be necessary if the end in view is to maintain grain prices at the pre-war ratio. The avowed purpose of the scheme is to maintain certain price-relationships by arbitrary power.

The object of the plan is to give relief to the farmers, particularly the wheat-growers, from prices said to be below production costs. If the plan is successful to such a degree that wheat production is continued at the present rate, we will be virtually subsidizing the supply to foreign consumers.

Complaints have been expressed from time to time that American manufacturers were selling goods in foreign markets at lower prices than at home, and the policy usually has been condemned, but under this plan we would have the government itself buying wheat in the home market and selling it abroad at a lower price, for the express purpose of keeping up the price on home consumers.

Many countries, ourselves included, have anti-dumping laws, devised to prevent importations of foreign products sold abroad below their value in the markets of the exporting country. Our wheat, if sold under the provisions of this bill, would fall in the category of these proscribed imports. The principal wheat-importing country is Great Britain, whose colonies are among the principal exporting countries, and the scheme might easily provoke retaliation in that quarter.

Advocates of the plan argue that it will not encourage surplus production because the sale of the surplus will tend to lower the foreign price and thus indirectly lower the domestic price as well, but the scheme is too complicated for anybody to know what the net effects would be. It is clear that the less wheat we would export under the plan the better, but not clear that our exports would be reduced. The plan confessedly would be a failure if it did not advance prices, and this is the influence which would count for most with the individual producer; the fact that a surplus might be produced in the aggregate probably would not be so influential upon his individual policy.

It does not appear what would be the status of farm products which are bringing more than the pre-war ratio price. Cotton is above it, as the result of the boll-weevil depredations, which have very much increased the cost of production. What would be the equalized price for cotton under present conditions? This illustrates the complications in which the proposition is involved. Wool is well above the pre-war ratio; will the wool-growers accept a reduction of tariff rates to restore the equilibrium?

It may be argued that conditions in the wheat producing territory are so serious that the country could afford to make an appropriation to aid in tiding the farmers over the emergency while they readjust their operations upon a new basis. What reason is there, however, for thinking that the McNary bill would tide them over any readjustment; it is intended to make wheat-growing profitable, and its natural effect will be to maintain

wheat production, in the face of unfavorable competitive conditions, and, despite the fact that so much wheat is not needed.

Price the Natural Regulator of Production

The fundamental objection to the measure is that it disregards the function of natural prices as a regulator of production. No one can study the effects of prices, even where the prices are unsatisfactory, without perceiving that they are the controlling influence in production. They are the signals by which productive effort is shifted from one line to another in the industrial field and the signals should be obeyed, not arbitrarily regulated. In other words, production instead of prices is the proper subject of regulation, and prices are the means of regulation. That this is true is illustrated by the situation in corn and hogs and in cotton ad cattle as shown in the comments above, and it is shown in the record of wheat since the beginning of the war. The cutting off of Russian wheat supplies threatened scarcity to Western Europe, prices advanced as a signal to producers elsewhere for more wheat. The increase was obtained from numerous countries, two of whom, Argentina and Canada, are now producing more than at any time in the past. Canada alone has increased her production by more than the total pre-war exports of Russia, and now Russia is exporting again. The price of wheat now falls,—a signal to producers that not so much wheat is required.

Economic law if given free play will accomplish an equitable readjustment. It may be admitted that the farmers suffer in some respects from violation of economic principles in the interests of others, the most important instances being in the arbitrary maintenance of wages in industries whose services and products the farmers must buy. But there is no remedy for this in government price-fixing, because the government cannot compel other parties to accept an artificial ratio between their products and farm products. That would involve a complete system of price-fixing, such as the Soviet authorities undertook to establish in Russia, without success. If the government attempts to control the relations between the industries the next question will be who will control the government? There is no end to that game and nothing in it but confusion, class conflicts and economic waste. Fair prices and wage relations are best secured through the largest industrial freedom, with individuals moving freely from one occupation to another as they please, and with the consuming public regulating production by means of the prices it is ready to pay.

The inequality of prices complained of is in large part the result of abnormal conditions which must be corrected before the pre-war relations can be restored. The state of prosperity in the industrial sections which is contrasted with conditions in the agricultural sections is due to activity in construction work, artificially restricted during the war, and the high wages are supported by high rents and other factors in the cost of living arising from the war. On the other hand, agriculture, instead of being stimulated by delayed demands, finds itself under the necessity of adjusting production to lower demands than were made upon it during the war. The prices conform to the deranged conditions behind them, and not until industry itself is in equilibrium will prices be equalized.

Other Claims for Equalization

The McNary bill seems to proceed upon the theory that farm products are the only ones that are suffering from unequal relations with the general price level. This is not the case. The Bureau of Labor price tables include 404 commodities, divided into nine groups. On page 19 of this publication are given the headings for these nine groups and the index numbers for the average prices of each group at the peak in May 1920, for January 1922, December 1922 and December 1923. The scheme of index numbers is for the purpose of affording a comparison between the prices of different kinds of commodities on a percentage basis, and these figures represent percentages of the average prices of the several groups in 1913. It is interesting to observe that the Farm Products group does not occupy the low position in any of the months given. The low position at each time is held by the Metals and Metal Products group, which never rose as high as Farm Products, dropped lower in January 1922, was lower one year ago and is lower by the latest Bureau figures. This group includes copper, lead, zinc and silver, but is mainly composed of leading iron and steel products of the raw material class, such as are sold by the iron and steel-producing companies.

Special attention may be directed to copper, inasmuch as it is chiefly produced by companies of large capital, which are supposed to have a decided advantage over the farmers in ability to control the prices of their product. Excepting a few months in the early part of 1923 copper has been selling ever since the war below the average price of 1913, and is selling below it today. Many copper companies are either shut down or producing at a loss at the present time.

If anybody is disposed to say that the Bureau of Labor is an untrustworthy authority, he is reminded that it is the authority named by the McNary bill to supply the price-data for the whole scheme of equalization.

Another large group whose rates of pay would have to be raised in order to equalize relations with other prices is the group who loaned capital before the war and are receiving the same rates and the same sums of interest as before. They are not getting even the equivalent value in wheat that they did before the war. It is pertinent to say that these people belong to the "creditor class," who in the minds of some people have conspired to bring about all this price confusion. The holders of all railroad bonds issued before the war and of nearly all railroad stocks are in this class; also the savings bank depositors, life insurance policy-holders and holders of farm mortgages. All of these people are factors in the situation, their interests will be affected by any arbitrary readjustments, and some of them may be thought worthy of passing notice.

Reference is made elsewhere to conditions in the cotton goods industry, where price equalization is very much needed. In both cotton and woolen goods prices are out of line with the costs of raw materials and labor, and mills are closing because they cannot operate without losses. Nor do they escape losses by ceasing to make cloth, for they have many expenses which go on. There are many manufacturers of other goods who are in the same situation, and it is safe to say generally that the profits of business are not larger because prices are higher. Moreover, there are many salaried persons and wage-earners whose pay, in their opinion at least, has not been equalized to the existing price level. These references simply illustrate the impossibility of making any general and equitable readjustment by arbitrary means.

The Wage Factor

Wages are the principal factor in the unbalanced situation which it is sought to reform. Wage-earners in the highly organized trades have resisted reductions from the wages established when prices were at the high level, and where moderate reductions were effected have demanded and obtained restorations in whole or in part. The increased price of woolen clothing is partly in the price paid the wool-grower for the fleece and the rest in wages paid for labor in making the cloth and the clothing. The increased charges of the railroads are all accounted for in higher wages to railroad employes, coal miners and workers who make the various supplies entering into the cost of railroad service. These wage-workers all insist that they must have the wages they are receiving in order to maintain the standard of living to which they are entitled. They plainly declare that they intend to have an advancing standard of living, which means that their wages must buy more of the things they want than formerly. This demand is not consistent with "equalization" upon the pre-war basis. If everything goes up in price to correspond with the rise of wages, the wage-earners will lose all their gains. Will they yield to the purpose of the McNary bill, or will they forthwith demand further wage-increases to preserve their gains? If the demands are refused, what will be the attitude of Congress and political officials in the event of strikes in the essential industries, such as transportation and coal-production, and if the demands are granted, as in the case of the anthracite miners, what will be the duty of the McNary Commission? Will there be another equalization of prices, and how long will the game be followed?

Protection Under the Tariff

It is urged on behalf of some such legislation as this that it is only an extension of the principle of a protective tariff, and that the farmer is unfairly treated by the protective tariff as it stands. But the farm bloc is understood to have had pretty much its own way in making the tariff on farm products, and it cannot be said that the duties are ineffective. The price of wheat at Minneapolis could not rule above the price in Canada as it does if the duty of 30 cents per bushel did not intervene. With quality taken account the market on this side of the line is at least 20 cents per bushel above the price on the other side.

Under the Act of 1922 butter bears a duty of 8 cents per pound as compared with 2½ cents under the act of 1913 and 6 cents under the emergency act. This duty is effective, the imports last year aggregating 19,709,399 pounds. The sources of supply were Argentina, 2,090,648 pounds; Assyria, 1,100 pounds; the Baltic, including Esthonia, Latvia and Lithuania, 176,512 pounds; Denmark, 8,434,151 pounds; Holland, 478,800 pounds; Ireland, 478,800 pounds; Italy, 24,060 pounds; New Zealand, 3,917,648 pounds; Norway, 12,404 pounds; Siberia, 792,256 pounds; Sweden, 672 pounds, and Canada, 3,599,764 pounds. The supply was continuous throughout the year, but the peak was reached in December, when 2,294,841 pounds were received. Canada utilized domestic markets regularly each month except in June and July. Denmark skipped March and October. The other sources of supply were intermittent. Cheese bears a duty of 5 cents per pound, but not less than 25 per cent ad valorem—milk 2½ cents per gallon.

The wool duty is a high one and unquestionably a great boon to the sheep owners. The beet sugar growers have no doubt about the benefits of the duty of 2 cents per pound on sugar. Potatoes bear a duty of 50 cents per hundred pounds. Meats all bear duties, and prior to their application there were impor-

tations from Australia and Argentina. Cattle are subject to duty and Canadian growers have felt much aggrieved over it. There are duties on fruits and other agricultural and horticultural products, but the foregoing are upon products from which an important part of the farmers' incomes are derived. It is not our purpose to discuss the pros and cons of the tariff question, but it will not be easy to prove that there is discrimination against the farmer. The duties upon all of the foregoing commodities have more effect upon prices than do the duties on steel products, which for the most part are as cheap here as anywhere. Farm implements are better and cheaper here than elsewhere. The duties are worth more to him than the duties on cotton cloth are worth to the home manufacturer or than the duties upon woolen goods are worth to the home manufacturer after allowing for the duties on wool. Shoes carry no duty. Automobiles of the type the farmer buys are cheaper here than anywhere else.

The argument for the McNary bill that it is an extension of the protective principle, obviously may be challenged. The theory of protection is that it will develop an industry, increase home production, and that the tariff does not necessarily raise the price which consumers have to pay.

The Loan Fund Proposal

Another measure is embodied in the Norbeck-Burtson bill, offered by President Coulter, of the Agricultural College of North Dakota, and well-supported by business interests of the State. It proposes a straight-out loan fund to be created by the national government, to aid the wheat-growers in shifting into diversified farming, buying cows to start them in dairying, etc. A great many objections may be made to this measure; it is difficult of administration, for there is no knowing where to stop when the government starts to loaning money to people because they need it; obviously it is an emergency measure, unjustifiable except under extraordinary conditions, but it has the merit of recognizing that the existing problem will be solved only as the farmers get away from wheat-growing by the one-crop system, and never will be solved by subsidizing them in the present system.

Changes Under Way

That diversified farming will rapidly take the place of one-crop farming in the Dakotas is the assurance given by everyone who is familiar with conditions in those states. Indeed, the change is already well under way. Wheat always has been the favorite crop of the pioneer in a new country. It was the chief crop of western New York when that was a new country and when the milling industry was established at the falls of the Genesee River. It was the chief crop in the early years of every state from New York and Pennsylvania westward to the plains. Everywhere as the farmers became forehanded, and able to become stock-growers, wheat gradually was reduced to a subordinate position and either took its place in a crop rotation or was dropped entirely, as with most farmers in Iowa. North Dakota soil and climate produced wonderful wheat crops in the early years there, but as the natural result of drawing continually on the same soil constituents the crops have become uncertain, and the grain is not up to its old time quality. For the five years ended with 1922 the wheat crop of New York State averaged approximately 20 bushels to the acre while that of North Dakota was only 10.4 bushels to the acre. A yield of ten bushels per acre over a period of years signifies abuse of a state's resources. The soil of North Dakota is not exhausted by any means, but it is sick of the treatment it has received.

Governor Nestos, the present executive of North Dakota, in an address at the annual dinner of the Chamber of Commerce of the State of New York a few weeks ago, presented the situation in a dignified and effective manner, showing the rapid progress that has been made in diversified agriculture in recent years, and describing the great resources of the State. He stated that in the past year the value of dairy, beef and poultry products had exceeded the value of wheat and durum. Dairying is making very great progress, the soil producing the several varieties of clover, including alfalfa, most successfully.

Mr. E. J. Weiser, President of the First National Bank of Fargo, in a recent interview invited attention to the fact that three of the largest creamery companies in the country are building extensive creamery plants in Fargo at this time. He summed up the qualifications of North Dakota for general purpose farming as follows:

> In North Dakota we have everything that has made Iowa prosperous, and a good many things they do not have.
>
> We are raising corn as good and of almost as large a yield as Iowa.
>
> J. J. Hill often said that land where they could raise alfalfa as successfully as they can here, was worth $200.00 an acre. There is now plenty of proof that he was right.
>
> Sweet clover grows like a weed and will support two head of cattle to the acre.
>
> North Dakota is the greatest flax state, the best rye state and produces barley and oats of as fine a quality and as great a yield as any other state.
>
> North Dakota potatoes are the best that are raised in any state, with the possible exception of Maine.
>
> There is no country in which sheep, cattle and horses can be raised more profitably.
>
> Its land will produce as abundant and as valuable crops of forage for feed for cows, hogs and poultry as the much higher priced lands of other states.
>
> It has been satisfactorily demonstrated that the production of sugar beets is as large and the sugar content as great as that of the very best beet producing sections of the United states.

In the production of honey, North Dakota is the greatest state in the nation.

We are just learning to develop apples and cantaloupe in addition to the great lists of berries, plums, cherries and other small fruit.

The surest way you can spell prosperity for North Dakota is C-O-W.

The main thing we now need is more optimism.

Gold Imports Since 1914

The gold imports of the United States in 1923, $322,715,812, while greater than in 1922, were materially less than in 1921 or 1920, and in fact considerably below the average since the beginning of the war. The gold imports of the five calendar years since the end of 1918 have aggregated $1,783,000,000, or an average of approximately $356,000,000 per annum, while those of the 4½ year of the war, from July 1, 1914, to December 31, 1918, aggregated $1,779,000,000, an average of $395,000,000 per annum.

Our imports of gold from the beginning of the war to the end of 1923, a period of 9½ years, aggregated $3,562,000,000, an average of $375,000,000 a year against an average of $76,000,000 a year in the 10 years preceding the war. Our gold exports from July 1, 1914, to December 31, 1923, have aggregated $1,518,500,000, an average of $166,000,000 per year.

The gold imports from the beginning of the war to the end of 1923 thus aggregated $3,562,000,000, the exports $1,518,000,000, making the excess of imports over exports in the 9½ years, in round terms, $2,044,000,000. Meantime, however, we produced from our own mines about $654,000,000 worth of gold. Adding this domestic production of $654,000,000 since July, 1914, to the excess of imports over exports in the same period, $2,044,000,000, we get a net total of $2,698,000,000 of gold accumulations in the 9½ years since the beginning of the war.

The question naturally arises as to what has become of this net total of this immense sum. The latest circulation report of the Treasury Department shows the total value of gold coin and bullion in the United States on January 1, 1924, at $4,247,000,000, while a similar statement for July 1, 1914, stands at $1,890,657,000, indicating an increase of gold coin and bullion in the 9½ years of about $2,356,500,000. Subtracting this 9½ year increase of $2,356,500,000 of coin and bullion in the country from the net gain of imports plus production $2,698,000,000 during the same period, we find a total of $342,000,000 in excess of the amount added to the circulation. This corresponds rather closely with the annual estimate of amount used in the industries and arts, since the government records of "new gold" (exclusive of that obtained from old jewelry, plate, etc.) supplied to the manufacturers of the country by the New York Assay Office, the Philadelphia Mint and a limited number of private refineries and banks averages about $38,000,000 per annum during the period in question.

Of the $322,715,812 of gold imported in 1923, $147,000,000 came from Great Britain, from Germany $50,000,000, Canada $49,000,000, France $19,000,000, Netherlands $13,000,000, and from Mexico $6,000,000. Of the $28,643,417 of gold exported, approximately $15,000,000 went to India, $5,000,000 to Mexico, 2½ millions to France and $2,000,000 to Hongkong.

The total imports of gold in the hundred years since the record of gold movements began is nearly $6,000,000,000, gold produced from our own mines about $4,000,000,000, and the exports approximately $5,000,000,000.

Regulating Business

When the Federal Trade Commission was created by Congress in 1914 there was a widespread hope among business men that it would develop into a constructive agency in the business life of the country. It was felt by many that our business machinery had grown so huge as to be beyond anything like intimate comprehension by a large part of the population and that an official body such as the Trade Commission might be helpful to a popular understanding of its complexities; that as an impartial investigator it would be able to supply the public with authentic information concerning matters in controversy, and play an important part in interpreting and clarifying trade customs and in establishing a code of ethics to which business should conform.

The investigation of the grain trade which the Commission completed last year by direction of a Senate resolution illustrates a useful service, so far as it collates facts, but it must be said that in its choice of activities the Commission seems to have conceived of its functions as those of a prosecutor and regulator, rather than a mediator and guide, and has been disposed to go to the limit of its authority, and beyond, in its efforts to put business into straightjackets.

Of course the Commission cannot be criticised for enforcing the law, and it probably takes the view usually adopted by government officials that it should solve all doubts in favor of the government, i. e., in favor of its own authority and leave it to the courts to protect the rights of individuals. At any rate the courts have had frequent occasion to reverse the Commission in behalf of the freedom of trade, and it is well for the public to take note of some of the issues that have been joined.

The Mennen Case

The latest reverse for the Commission came in the Mennen case, which had been in litigation more than a year and which contains elements of great economic as well as legal interest. The original complaint against the Mennen Company, which manufactures toilet articles, was issued in 1921. The Commission ruled that a manufacturer must sell his merchandise, provided the goods are of like quality, at one price, for similar quantities, to all customers. The Mennen Company had adopted a plan of making different discounts to wholesalers and retailers; that is, wholesalers were able to purchase goods at one discount while retailers or pools of retailers were given a smaller discount. The Commission tried to stop this practice, but the Circuit Court of Appeals, in an opinion written by Judge Henry Wade Rogers and concurred in by Judges Manton and Mayer, upheld the Company's contention on every point.

The decision in the Mennen case has been hailed in many quarters as a new bill of rights for business, and as having relieved manufacturers from the danger of having their enterprises suddenly endangered through a narrow bureaucratic interpretation of the law. The law as construed by Judge Rogers seemed to settle that the Mennen Company had a right to choose its customers and generally to make its prices as it pleased; that it had a right to refuse to sell any class direct if it chose or to refuse to sell pools as wholesalers.

Within the last month, however, the Commission, after more than a year of investigation, has held that the National Biscuit Company is violating the law in giving chain store companies larger discounts than pools. This case will go to the courts. The difference between it and the Mennen case appears to be in the larger relative importance of the Biscuit company in the trade, the Commission holding that it approaches a monopoly. If the Biscuit company is the monopoly aimed at, there would seem reason for thinking that it would lose rather than gain in its position by a policy which is offensive to the great body of independent retailers.

The Colgate Decision

Another important case much the same in principle, but which was originally instituted by the Attorney General under the Sherman act before the Federal Trade Commission was created, is the Colgate case. In this case the question at issue was the right of a manufacturer to set a re-sale price on his product. The Colgate Company had adopted a policy of simply refusing to sell its goods to price-cutters and was ordered by the Attorney General to desist from this practice. The company refused to discontinue its policy, was indicted and the case went to the Supreme Court, where a comprehensive decision was given sustaining the company.

For years manufacturers had been vainly trying to get the courts to endorse some plan that would enable them to maintain the retail prices of their products. In the Miles Medical Company case the Supreme Court held it illegal for manufacturers to uphold the retail price by resorting to a system of contracts with dealers, in which the latter undertook to sell at an agreed price. In the Bobbs-Merrill and Sanatogen cases it was decided that the owners of a copyrighted article or of a patented product could not lawfully prescribe the retail price by attaching a notice to the article. These notices were construed as violating the law against restraint of trade in the same way as the Miles plan. The Victor Talking Machine Company case came next, the method attempted here having been a system of licenses to the dealers and customers rather than outright sale. This also was found in conflict with the law, and it was not until the victory of the Colgate Company that a way was found to combat the price-cutter.

The Rule of Reason

Since the Colgate decision down to date, the higher courts have tended more and more to resist the attempt of governmental bureaus to dictate exactly how manufacturers and merchants shall operate their businesses. In construing the Sherman act in the Standard Oil case, the Supreme Court laid down the rule of reason which has since been followed in all decisions where that statute is concerned. In United States v. American Tobacco Company, the Supreme Court, construing the Sherman act, said:

> Applying the rule of reason to the construction of the statute, it was held in the Standard Oil case, that as the words "restraint of trade" at common law and in the law of this country at the time of the adoption of the Anti-Trust Act only embraced acts or contracts or agreements or combinations which operated to the prejudice of the public interests by unduly restricting competition or unduly obstructing the due course of trade or which, either because of their inherent nature or effect or because of the evident purpose of the acts, etc., injuriously restrained trade, that the words as used in the statute were designed to have and did have but a like significance . . . . In truth, the plain demonstration which this record gives of the injury which would arise from and the promotion of the wrongs which the statute was intended to guard against which would result from giving to the statute a narrow unreasoning and unheard of construction, as illustrated by the record before us, if possible serves to strengthen our conviction as to the correctness of the rule of construction, the rule of reason, which was applied in the Standard Oil case, the application of which rule to the statute we now, in the most unequivocal terms, re-express and re-affirm.

In the case of the Great Atlantic and Pacific Tea Company v. Cream of Wheat Company, the Supreme Court said:

. . . . We had supposed that it was elementary law that a trader could buy from whom he pleased and sell to whom he pleased, and that his selection of buyer or seller was wholly his own concern. "It is a part of a man's civil rights that he be at liberty to refuse business relations with any person whatsoever, whether the refusal rests upon reason, or is the result of whim, caprice, prejudice or malice." Cooley on Torts . . . .

Before the Sherman act it was the law that a trader might reject the offer of a proposing buyer, for any reason that appealed to him; it might be because he did not like the other's business methods, or because he had some personal difference with him, political, racial or social. That was purely his own affair, with which nobobdy else had any concern. Neither the Sherman Act, nor any decision of the Supreme Court construing the same, nor the Clayton Act, has changed the law in this particular. We have not yet reached the stage where the selection of a trader's customers is made for him by the government.

In the case of the Sinclair Refining Company v. Federal Trade Commission, the Court said:

Competition is not an unmixed good. It is a battle for something that only one can get; one competitor must necessarily lose. The weapons in competition are various. Superior energy, more extensive advertising, better articles, better terms as to time of delivery, place of delivery, time of credit, interest or no interest, freights, methods of packing, lower prices, more attractive and more convenient packages, superior service and many others, are and always have been considered proper weapons. Expense attending the use of any weapon, the foolishness of it, the fact that a method is uneconomical, or that the competitor cannot meet any method or scheme of competition because it will be ruinous to him to do so, have not, nor has either of them, ever been held unfair. Such things are a part of the strife inherent in competition. * * * * *

If that is not true, then the law must mean that the Trade Commission is set as a watch on competitors, with the duty and the power to judge what is too fast a pace for some and to compel others to slow up; in other words, to destroy all competition except that which is easy. We are of opinion that Congress did not intend to bestow any such power, and that it did not intend to do more than eliminate the almost infinite variety of fraudulent practises from business in interstate commerce. * * * *

The Sinclair case was one where the oil company had furnished service station tanks and pump equipment to operators of such stations. The Federal Trade Commission held this to be unfair competition, but the Court, in the decision cited above, said:

In addition to the reasons upon which the decision was based in the Texas Company case, supra, we are of opinion that the petitioner had the undoubted right to furnish any and every purchaser such containers and conveniences to aid him in delivering the gasoline into the possession of the consumer as it might see fit.| The right to fix prices is not given to the Federal Trade Commission. The only cases where the question of price has come into consideration have been those wherein the making of a price—in some cases high, in others low—has been used as an element in some fraudulent scheme of oppression. The price which one may put upon that which he has to sell or lease is a matter wholly his own.

All of these cases, and dozens of others that might be cited, indicate a disposition on the part of the courts not to interfere with commercial practices where such do not tend to monopoly or where the element of conspiracy and fraud are absent. They are important insofar as they free business from the deadening hand of governmental control and leave individual enterprise in a condition to function in accordance with the normal laws that govern all commercial transactions. The decisions indicate that the courts have a clearer comprehension of basic business principles than this Commission, although the latter was intended to come closer to business problems than the court, to deal with them in a more practical manner and with greater freedom from technicalities.

The Efficacy of Competition

The Commission goes wrong in its unwillingness to allow free play to natural competitive forces. It is too eager to exercise its authority over every practice which it does not approve. It has seemed not to grasp the fact that a manufacturer who puts arbitrary restrictions upon the sale of his goods runs the risk of making the field easier for his competitors. In other words, if the practice becomes an evil it sets in motion its own remedy.

There are not many kinds of goods, particularly in the list of necessaries, which the public must buy of one producer. In the case of most products entering into common use a fierce process of elimination is constantly going on. In every line there are new competitors constantly rising to challenge the position of established houses and divide patronage with them. If the manufacturer of a certain line of goods, whether toilet preparations or anything else, decides to maintain a certain retail price for his product he may find it legally possible to do so, but whether he will find it economically possible to persist in that policy is another question. By pegging the price of his goods at an arbitrary or unreasonable figure he makes the way easier for every competitor who can offer similar goods at a fair price. There is no reason to believe that the public needs the protection of government agencies against unreasonable prices for toilet articles. The strife of the market can be trusted to take care of that.

There is no good reason why a manufacturer should not be allowed to have his own policy of getting his goods to the public, subject to the chance he takes of losing business if his methods increase the price. Most of the articles on behalf of which price maintenance suits have been brought have been products for which a demand has been created by advertising. It is a common and legitimate policy for a manufacturer to wish to control the price of his product to the consumer and to have it sold at a uniform price through all channels. On the whole it promotes popular satisfaction to follow this rule, and there is the greater reason for it where the producer makes a large expenditure for the

introduction of the goods to consumers. Obviously he has an interest in the price at which they are offered to consumers. He doesn't want advantage taken of his advertising, either to raise the price to a point where it will discourage purchases or lowered to a point where retailers will be discouraged from handling it.

Cream of Wheat Case

In the Cream of Wheat case, Judge Hough evidently regarded the complaint as trivial. He said: "How it can be called substantial and unreasonable restraint of trade to retuse to deal with a man who avowedly is to use his dealing to injure the vendor, when said vendor makes and sells only such an advertisement-begotten article as Cream of Wheat, whose fancy name needs the nursing of carefully handled sales to maintain an output of trifling moment in the food market, is beyond my comprehension."

The fundamental objection to all such interference with trade is that on the whole the public is best served by a state of freedom. It is not in the public interest to have business standardized or regulated by governmental authority beyond the suppression of dishonest dealings or practices generally recognized as subversive of the public morals, as the use of the lottery. Progress is achieved by innovation, and the public can be trusted to determine the methods that give it the best service and to eliminate the others. Every interference in common business life has a harmful influence, because it accustoms the public to look to the government to correct all temporary maladjustments, instead of allowing the natural laws of trade to do it, as they are quite certain to do with no great delay. The government has not the requisite wisdom for performing such functions, and its blundering attempts simply make matters worse.

The Commission and the Packers

An interesting reaction to the report of the Commission upon the meat-packing industry appears in the official report of Mr. Charles J. Brand, long connected with the marketing division of the Department of Agriculture, who was sent abroad last year to investigate marketing conditions in the meat industry. The Commission's report on the packers, made several years ago, followed the familiar line of popular criticism, charging collusion between the packers, monopoly, menacing development of power, etc., and inspired the prosecution which resulted in the "consent decree," by which the packers agreed to retire from certain lines of business and, incidentally, to abstain from ever operating retail stores, except at their killing plants for the convenience of their own employes. This report by a government commission naturally has been given considerable weight by the governments of other countries in which the American packers are operating, notably Argentina and Australia, and created hostility which has been of much embarrassment to them.

Mr. Brand tells of the impression created in the meat trade abroad by this attack on the packing industry, and of how it has been used against the industry by foreign competitors. He says, in part:

> Wherever livestock and meat problems in Europe are discussed, and this is particularly true of England, France and Germany, the scathing criticisms of the American industry in the Federal Trade Commission report are injected into the discussion.
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> In Europe there is an inability to understand how any government agency would so severely condemn an important domestic business, knowing that whatever was said would be used throughout the world against the foreign development of that business on the part of the units thus subjected to condemnation. At least the larger packing interest in Great Britain do not believe more than a small part of the allegations against the American packers. They do not fear them particularly as competitors and they consider such collusion as may be possible as being relatively impotent. As to their power to monopolize in any predominant or even substantial sense, they merely smile and say they will take their chances. On the other hand, it appears quite evident from time to time, without having direct evidence, that as competitors the British companies lose no oportunity to disseminate information, particularly when it emanates from the United States, that is disadvantageous to the American packing companies.

Mr. Brand, in his report and in public addresses made since, has taken the position that a more economical distribution of meat is accomplished by means of the systems of retail stores operated in England by packing companies. One of these companies has over 2,500 retail stores which it supplies from its killing establishments in Australia and Canada. In an address before the American Live Stock Association at Omaha last month Mr. Brand expressed the opinion that a saving of 10 per cent in the meat bill of the American people might be made in this manner, which would be about $300,000,000 per year. If this representative of the Department of Agriculture is right, the government under the guidance of the Commission has compelled the leading packers of this country to agree that they never will adopt a policy which is elsewhere being demonstrated to be a natural evolution in the meat business.